

Let's Talk Finances

6 Tips to Save for a Down Payment



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When considering buying a home, the size of your down payment plays a major role in your future housing expenses. According to the Consumer Financial Protection Bureau, the amount you save can greatly influence your interest rate, monthly housing payment, and also your need for mortgage insurance. As you prepare for the home buying process, here are six tips to help you cut extra costs and save for your down payment.

Typically, lenders require anywhere between 5 and 20 percent of a home's purchase value as a down payment, but the more money you can put down, the better off you'll be. By responsibly managing your spending and allocating extra cash to a savings account, you will be on the right track towards saving for your home purchase.

Prospective homebuyers may find these tips useful in helping to save for a down payment:

- **Develop a budget & timeline.** Start by determining how much you'll need for a down payment. Create a budget and calculate how much you can realistically save each month – that will help you gauge when you'll be ready to transition from renter to homeowner.
- **Establish a separate savings account.** Set up a separate savings account exclusively for your down payment and make automatic contributions on a regular basis. By keeping this money separate, you'll be less likely to tap into it when you're tight on cash.
- **Shop around to reduce major monthly expenses.** It's a good idea to check rates for your car insurance, renter's insurance, health insurance, cable, Internet or cell phone plan. There may be deals or promotions available that allow you to save hundreds of dollars by adjusting your contracts.
- **Monitor your spending.** With online banking, keeping an eye on your spending is easier than ever. Track where most of your discretionary income is going. Identify areas where you could cut back (e.g. nice meals out, vacations, etc.) and instead put that money into savings.
- **Look into state and local home-buying programs.** Many states, counties and local governments operate programs for first-time homebuyers. Some programs offer housing discounts, while others provide down payment loans or grants.
- **Celebrate savings milestones.** Saving enough for a down payment can be daunting. To avoid getting discouraged, break it up into smaller goals and reward yourself when you reach each one. If you need to save \$30,000 total, consider treating yourself to a nice meal every \$5,000 saved. This will help you stay motivated throughout the process.